

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
DODE-00 PM-05 H-02 L-03 PA-02 MMO-01 /128 W
-----063028 281009Z /14

P 280923Z JUN 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 9170

TREASURY/DEP WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

UNCLAS SECTION 01 OF 03 TOKYO 11784

USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - JUNE 22-28

1. SUMMARY: YEN WITHIN STRIKING DISTANCE OF 200. ECON-
OMIC CABINET STICKS WITH STATUS QUO. SMALL INCREASE IN
INDUSTRIAL PRODUCTION AND STRONG INCREASE IN SHIPMENTS IN
MAY WHILE RETAIL SALES SOFTEN IN MONTH. JAPAN ECONOMIC
RESEARCH CENTER (JERC) HIKES ITS JFY 1978 GROWTH FORECAST
TO 5.2 PCT, SEES SECOND HALF HESITATION. BANK OF JAPAN
WINDOW GUIDANCE FOR THIRD QUARTER CITY BANK LENDING
IMPLIES LITTLE CHANGE IN TREND OF PRIVATE BORROWING. MAY
MONEY SUPPLY GROWTH MAINLY DUE TO GOVT BORROWING. EXPORT
PRICES UP MORE THAN IMPORT PRICES IN MAY. APRIL SAVINGS
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RATE UP. END SUMMARY.

2. THE YEN MOVED STILL HIGHER IN THE LATEST WEEK WITH THE
TOKYO INTER-BANK RATE HITTING 203.80 ON WED, JUNE 28, A
FIVE YEN GAIN FOR THE WEEK. MARKET COMMENTATORS GENERALLY
ATTRIBUTED THE LATEST SPURT, WHICH BEGAN OVERSEAS LATE
LAST WEEK, TO DISAPPOINTMENT THAT NO SIGNIFICANT NEW SUR-

PLUS CUTTING MEASURES EMERGED FROM THE FRIDAY AFTERNOON ECONOMIC CABINET MINISTERS MEETING. TODAY'S SURGE IN THE YEN IS WIDELY ATTRIBUTED TO SENATE ACTION TO BLOCK POSSIBLE IMPOSITION OF A SURCHARGE ON U.S. OIL IMPORTS. TRADING HAS CONTINUED AT THE ACTIVE PACE OF RECENT WEEKS. BOJ INTERVENTION WAS NOTED BY THE MARKET THURS, FRI AND MON IN AMOUNTS OF \$25, \$50 AND \$200 MIL, WHICH COMMENTATORS DESCRIBED AS HALF-HEARTED.

3. THE JUNE 23 MEETING OF THE ECONOMIC CABINET MINISTERS APPARENTLY REACHED NO MAJOR NEW DECISIONS ON ECONOMIC POLICY (TOKYO 11528). IT WAS AGREED THAT STEPS SHOULD BE TAKEN TO INCREASE EMERGENCY IMPORTS THOUGH NO SPECIFIC TARGETS WERE SET. NO ADDITIONAL GOVT MEASURES WERE TAKEN TO RESTRAIN EXPORTS ARTIFICIALLY BEYOND THE GUIDANCE ALREADY ISSUED TO EXPORTERS TO HOLD EXPORT VOLUME THIS YEAR TO LAST YEAR'S LEVEL. THE COUNCIL REPORTEDLY WILL MEET AGAIN IN SEP TO REVIEW ECONOMIC DEVELOPMENTS, INCLUDING WHETHER OR NOT A SUPPLEMENTAL BUDGET MIGHT BE NECESSARY.

4. MINING AND MANUFACTURING PRODUCTION, S.A., WAS UP 0.3 PCT IN MAY AND SHIPMENTS WERE UP 1.5 PCT. INVENTORIES DECLINED 0.7 PCT AND THE RATIO OF INVENTORIES OF SHIPMENTS FELL RAPIDLY, BY 2.9 PCT (TOKYO 11676). THIS WAS THE SEVENTH MONTH IN SUCCESSION OF RISING PRODUCTION

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FIGURES. DURING THE FIRST TWO MONTHS OF THE SECOND QUARTER, HOWEVER, PRODUCTION OUTPUT WAS UP ONLY 0.4 PCT (S.A.), IN CONTRAST TO THE VIGOROUS 3.2 PCT ADVANCE IN THE FIRST QUARTER THIS YEAR.

5. RETAIL STORE SALES WEAKENED SOMEWHAT IN MAY AFTER BRISK PERFORMANCE IN FIRST FOUR MONTHS OF THE YEAR. ACCORDING TO THE DATA RELEASED BY MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI), DEPARTMENT STORE SALES, S.A., FELL 0.5 PCT IN MAY FROM THE PRIOR MONTH'S LEVEL, RECORDING A DECLINE FOR THE FIRST TIME IN SIX MONTHS. SALES OF LARGE-SCALE SELF-SERVICE STORES, N.S.A., ALSO RECORDED A SMALLER YEAR-OVER-YEAR INCREASE IN MAY, UP 12.6 PCT VS THE 17.6 PCT INCREASE IN APRIL. MITI ATTRIBUTES SLUGGISH SALES IN MAY TO WEAKER DEMAND FOR FOODSTUFFS PRIMARILY REFLECTING TAX RATE HIKES FOR LIQUOR, EFFECTIVE MAY L.

TABLE 1: DEPARTMENT STORE SALES (S.A.; 1975 EQUALS 100; PCT CHANGE FROM PRIOR MONTH IN PAREN):

MAR	121.8 (1.6)
APR	122.6 (0.7)

MAY 122.0 (-0.5)

TABLE 2: SALES OF DEPARTMENT STORES AND LARGE-SCALE SELF-SERVICE STORES, N.S.A. (IN BIL YEN; PCT CHANGE FROM YEAR EARLIER IN PAREN):

- DEPARTMENT STORES SELF-SERVICE STORES

MARCH	466.3 (7.5)	366.6 (14.6)(REV)
APRIL	419.1 (7.3)	387.7 (17.6)(REV)
MAY	402.2 (6.6)	374.1 (12.6)

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DODE-00 PM-05 H-02 L-03 PA-02 MMO-01 /128 W

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P 280923Z JUN 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 9171

TREASURY/DEP WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

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USEEC USOECD ALSO FOR EMBASSY

MAY	402.2 (6.6)	374.1 (12.6)
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6. JAPAN ECONOMIC RESEARCH CENTER (JERC) PREDICTS A 5.2 PCT REAL GROWTH FOR CURRENT FY 78, ACCORDING TO ITS LATEST QUARTERLY FORECAST RELEASED JUNE 26. GROWTH PROJECTION HAS BEEN REVISED UPWARD FROM THE 4.6 PCT IN ITS MARCH 78 FORECAST WHILE CURRENT ACCOUNT SURPLUS ALSO REVISED UPWARD TO \$15 BIL FROM THE PREVIOUS ESTIMATE OF \$11.2 BIL. JERC SUPPORTS THE VIEW THAT THE PATTERN OF SECOND-HALF BUSINESS HESITATION WILL BE REPEATED AGAIN THIS YEAR. GROWTH RATE IS PREDICTED TO SLOW DOWN FROM 6 PCT (S.A.A.R.) IN THE FIRST HALF TO 3.6 PCT IN THE SECOND HALF EVEN WITH THE ASSUMPTION OF PUBLIC WORKS SPENDING OF 1.2 TRILLION YEN ADDITIONAL TO PRESENTLY

BUDGETED LEVELS. JERC ATTRIBUTES MAJOR DRAG ON GROWTH TO RAPID REDUCTION IN EXPORT CONTRIBUTION TO NATION'S ECONOMY. JERC ALSO PREDICTS WANING OF PRIVATE CONSUMER SPENDING AFTER SUMMER PRIMARILY DUE TO SMALL 6 PCT UNCLASSIFIED

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WAGE INCREASE AND SOME ACCELERATION OF INFLATION FROM ITS PRESENT SUBDUED LEVEL.

7. BOJ ANNOUNCED JUNE 27 NEW CREDIT EXPANSION LIMITS ON THE 13 CITY BANKS FOR THE COMING JUL-SEP QUARTER OF 1,115 BIL YEN. EMBASSY ESTIMATES THAT, BASED ON THESE LIMITS, CREDIT EXPANSION BY THE CITY BANKS THROUGH SEPT WILL CONTINUE TO GROW AT A 9 PCT RATE, YEAR-OVER-YEAR, ABOUT THE SAME RATE AS RECENT QUARTERS. THE INCREMENT DURING THE QUARTER WOULD, HOWEVER, BE DOWN SOMEWHAT (LESS THAN 10 PCT) FROM THE ACTUAL INCREASE RECORDED IN JUL-SEP 77. THE BANKS REPORTEDLY WERE AUTHORIZED NEW CREDIT CEILINGS EQUAL TO THE FULL AMOUNT THEY HAD REQUESTED; THUS THE BOJ WINDOW GUIDANCE IS ONLY NOMINALLY LIMITING. CITY BANKS REPORTEDLY SEE NO SIGNIFICANT PICKUP IN PRIVATE DEMAND FOR CREDIT DURING THE COMING QUARTER AND SOME ESTIMATE THE INCREASE IN CREDIT WILL FALL SHORT OF THE PERMITTED INCREASE IN THE CURRENT QUARTER.

RENT
- CITY BANK LENDING LIMITS

- INCREASE IN LIMIT OUTSTANDING LOANS AND
- PCT CHANGE DISCOUNTS, AT END OF
- FROM QUARTER, PCT CHANGE
- IN BIL YEN PRIOR YEAR FROM PRIOR YEAR(NOTE)

1977:JUL-SEP	1,129	-13.1	8.6
- OCT-DEC	1,685	7.8	8.5
1978:JAN-MAR	1,216	6.5	8.7
- APR-JUN	1,052	12.9	9.0
- JUL-SEP	1,115	- 8.3	9.0

NOTE: TOTAL LOANS AND DISCOUNTS BY 13 CITY BANKS, UNCLASSIFIED

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INCLUDING SMALL AMOUNTS OF FOREIGN CURRENCY LOANS NOT INCLUDED IN LENDING LIMITS.

8. FOLLOWING TABLE JUST RELEASED BY BOJ SHOWS FACTORS CONTRIBUTING TO APRIL INCREASE IN M-2, N.S.A. CREDITS TO

NATIONAL GOVT ACCOUNTED FOR MORE THAN ONE-HWTF OF THE
GROWTH IN M-2 DURING APRIL.

CHANGES IN M-2 (MONTHLY PCT CHANGE AT ANNUAL RATE, I.E.
TIMES 12):

-	FEB	MAR	APR
M-2, S.A.	10.8	12.0	26.5
M-2, N.S.A.	4.3	21.2	29.3

(FACTORS CONTRIBUTING TO CHANGES IN M-2, N.S.A.):

CREDITS TO:	FEB	MAR	APR
PRIVATE SECTOR	4.7	13.7	1.9
NATIONAL GOVT	- 1.7	12.0	15.5
LOCAL GOVTS	2.1	3.8	2.2
FOREIGN ASSETS,NET	3.7	6.6	0.4
OTHERS	- 4.5	-14.9	9.3
TOTAL ALL FACTORS	4.3	21.2	29.3

9. BOTH EXPORT AND IMPORT CONTRACT PRICE INDICES (N.S.A.,
DENOMINATED IN YEN) REBOUNDED IN MAY AFTER DECLINING IN
PRECEDING TWO MONTHS, BOJ ANNOUNCED. BOJ ATTRIBUTES MAY
REBOUND PRIMARILY TO DECLINE IN YEN EXCHANGE RATE AGAINST
DOLLAR DURING THE MONTH. LARGER INCREASE IN PRICES FOR
EXPORTS THAN FOR IMPORTS ALSO TENDS TO CONFIRM REPORTS

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JAPANESE EXPORTERS RAISED THEIR DOLLAR EXPORT PRICES
DURING THE MONTH TO COMPENSATE FOR EROSION OF YEN RECEIPTS
IN RECENT MONTHS.

EXPORT AND IMPORT CONTRACT PRICE INDICES, N.S.A.
(1975 EQUALS 100; PCT CHANGE FROM PRIOR MONTH IN PAREN)

- EXPORTS (JEI 80) IMPORTS (JEI 88)

MARCH	89.9 (-0.7)	90.9 (-1.6)
APRIL	89.0 (-1.0)	87.4 (-3.9)
MAY	90.6 (1.8)	88.5 (1.3)

10. AVERAGE PROPENSITY TO SAVE OF WORKING HOUSEHOLDS,
S.A., ROSE IN APRIL TO 23.5 PCT OF DISPOSABLE INCOME
FROM 22.8 PCT AVERAGED IN THE FIRST QUARTER OF THIS
YEAR.

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AVERAGE PROPENSITY TO SAVE, S.A.; PCT OF DISPOSABLE
INCOME (JEI 363)

JAN 22.3

FEB 24.1

MAR 21.9

APR 23.5
MANSFIELD

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Review Release Date: N/A
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